

STATE OF ALASKA

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

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April 10, 2001

Dear Alaskans,

The attached information is being sent to you by the Alaska Medicaid program, to illustrate the potentially devastating funding problems which may occur as a result of changes the federal government is making in the Federal Matching Assistance Percentage (FMAP) calculation for state Medicaid programs.

In Alaska, the revisions being made to the FMAP calculation has the potential of reducing our Medicaid services by 6.5% – \$28.5 million – in just one year.

For the Medicaid program to manage a reduction of this magnitude from one fiscal year to the next would require significant, fundamental changes to the program. Changes would have to be made in a combination of the clients eligible for the program, the services covered by the program, and/or the amount paid to providers for services rendered.

I hope you find this informative and convincing, and that you will support Alaska's efforts to minimize these unintended consequences on federal funding of the Medicaid program.

If you have any questions about this material, please contact Randy Super with the Division of Medical Assistance at (907) 465-5823 or email Randy_Super@health.state.ak.us.

Sincerely,



Karen Perdue
Commissioner

UNINTENDED CONSEQUENCES

*The impact of a change in the BEA's per capita
income methodology on a State's Medicaid funding*



March 29, 2001



Alaska's Medicaid Funding Crisis: Hurricane or Summer Storm?

Like dark clouds gathering on the horizon, a small change in a single mathematical formula is poised to storm through Alaska's ability to fund medical expenses for needy Alaskans through Medicaid.

The storm began to gather force in 1999, when the Bureau of Economic Analysis (BEA) changed its calculation of per capita income. The Health Care Financing Administration (HCFA), which provides federal Medicaid dollars to states, plugs BEA income figures into the formula it uses to determine how much federal assistance each state gets. This formula generates the Federal Medical Assistance Percentage (FMAP).

HCFA uses the FMAP to determine the level of federal participation in each state's Medicaid program. When the BEA changed its method to count employer contributions and dividends and interest received by government retirement plans as personal income, Alaska's calculated FMAP percentage dropped like the mercury in a thermometer.

- Alaska is more strongly affected by the way the BEA calculates per capita income than any other state. Why? Because government enterprise accounts for proportionately more economic activity in Alaska than in other states. As a frontier state, we have benefited from the work of our Congressional delegation, which has directed federal activity our way to help the state build its economic infrastructure.
- When the BEA changed its method to count employer contributions and dividends and interest received by government retirement plans as personal income, Alaska's high proportion of government workers suddenly counted against the state. The effect of this new method was to increase estimates of Alaska's per capita income from below the U.S. average to above the U.S. average. Remember, there was no change to the actual amount Alaskans are earning, just to the method used to calculate Alaska's earnings!

Alaska faces a direct loss of \$12 million, which equates to a \$28 million loss of service to Medicaid recipients.

In recognition of the substantially higher costs of health care in our frontier state, Alaska Senator Frank Murkowski had been spearheading an effort to raise Alaska's FMAP. Senator Murkowski's previous efforts had resulted in a three-year Alaska FMAP calculation that held the federal percentage at a stable 59.8%. Building on that success, the Balanced Budget Reconciliation Act of 2000 raised Alaska's FMAP slightly for 2001 (from 59.8% to 60.13%).

But in 2002, when Alaska loses the shelter of the BBRA, our FMAP will plunge. Why? Because the BEA's new calculations are poised to hit Alaska's shores. Without BBRA to shelter the state, Alaska's FMAP will drop to 57.38%, which equates to an estimated loss of \$12 million in federal funds in FY02.

A \$12 million loss is painful enough to absorb, but if the Alaska Legislature does not replace these lost federal funds with state general funds, the overall impact to Alaska's Medicaid program could total as much as \$28.5 million. This would equate to a 6.5% reduction in Alaska's Medicaid program.

Solution: cap the percent drop in Alaska's FMAP in any given year to no more than one percent.

It is difficult for a state Medicaid program to respond quickly to a change of this magnitude. One proposed solution is to cap the percent drop in Alaska's FMAP in any given year to no more than one percent. This manageable approach would mean that Alaska would adjust to the change in FMAP in increments, rather than all at once. Instead of facing a hurricane, Alaska would face a series of milder and more manageable storms.

Alaska recognizes that we are required to live by the FMAP just as other states are. But no state should have to suffer such a dramatic drop in funding in a single year as the one Alaska faces if no relief is found. Limiting the impact by phasing in the change offers Alaska a reasonable opportunity any state deserves -- adequate time to prepare for and adjust to the storms of federal financing.

In Summary

- Our Congressional delegation has been working to increase federal funding for Alaska's Medicaid program, in recognition of higher health care costs in the state. This has recently resulted in upward adjustments to Alaska's FMAP.
- Now, based on a change in how the BEA calculates per capita income, Alaska's FMAP is slated to decrease 2.75% in a single year. This is the largest decrease faced by any state. Alaska faces a direct loss of \$12 million, which equates to a \$28 million loss of service to Medicaid recipients.
- Alaska was disproportionately affected by the BEA's action because it has the largest portion of per capita personal income derived from government of any state: 24.7%.
- The impact of a 6.5% decline in Alaska's Medicaid program services, or \$28.5 million lost, is too large a program change to absorb in one year. Alaska should not be penalized disproportionately compared to other states due solely to its unique geographic and economic circumstances.

Recommendation

- As a matter of equity, assure that no state's FMAP decreases by more than 1 percent for any one year FFY01-05.

FY01 –02 FMAP Projected Impact

This table calculates the projected impact on the Alaska Medicaid program of the 2.75% decrease in federal participation resulting from this simple methodological change by the Bureau of Economic Analysis.

The projection starts with the FY02 Governor's Budget Request submitted to the Legislature.

The total funds are divided between state and federal funds participation and only represent the Title XIX portion of the request requiring a state match.

Last year's uncertain outcome of Congressional activity on the budget required the development of the Governor's Request using the last known FMAP rate of 59.8%.

The final Congressional budget recognized some of the greater costs to providing health care in Alaska resulting in a small increase to the FY01 FMAP. The calculation adjusts the FY02 budget request for the slightly higher FY01 FMAP.

The next calculation display's the 2.75% reduction in federal participation from FY01 to FY02 and the corresponding \$12.2 million increase in state general fund participation to maintain the same level of program clients and services.

Lastly, assuming additional state funding is not available the total program funding must be reduced 6.5% or \$28.5 million to the level of federal funds which the state match will support.

This projection assumes no difference between the state and federal fiscal years.

FY01 - FY02 FMAP Projected Impact

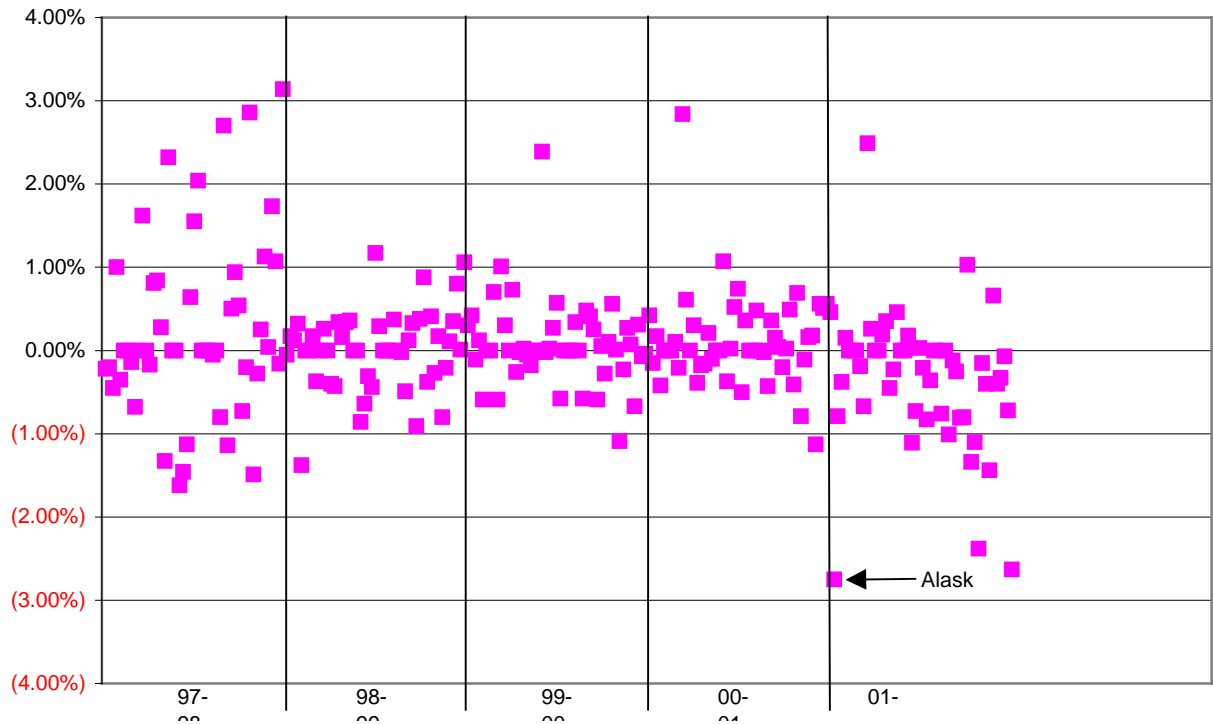
	State	Federal	Total Funds
Budgeted FY02 FMAP	40.2%	59.8%	
FY02 Governor's Budget Request	176,181.6	262,081.1	438,262.7
Adjustment for increased FMAP		3,627.4	3,627.4
FY01 FMAP	39.87%	60.13%	
FY02 Budget Request @ FY01 FMAP	176,181.6	265,708.5	441,890.1
FY01 to FY02 FMAP Change	2.75% 12,152.0	-2.75% (12,152.0)	
FY02 Budget Request @ FY02 FMAP			
Assumes same total program level with additional state match to offset FMAP decl	42.62% 188,333.6	57.38% 253,556.5	441,890.1

Assuming additional state match is NOT available for FY02 Budget, the total program is reduced 6.5% to the level supported by the state's participation at the FY02 FMAP.		(28,512.3)	(28,512.3)
42.62%	57.38%		
176,181.6	237,196.2		413,377.8

Note 1: Assumes state and federal fiscal year periods are the same

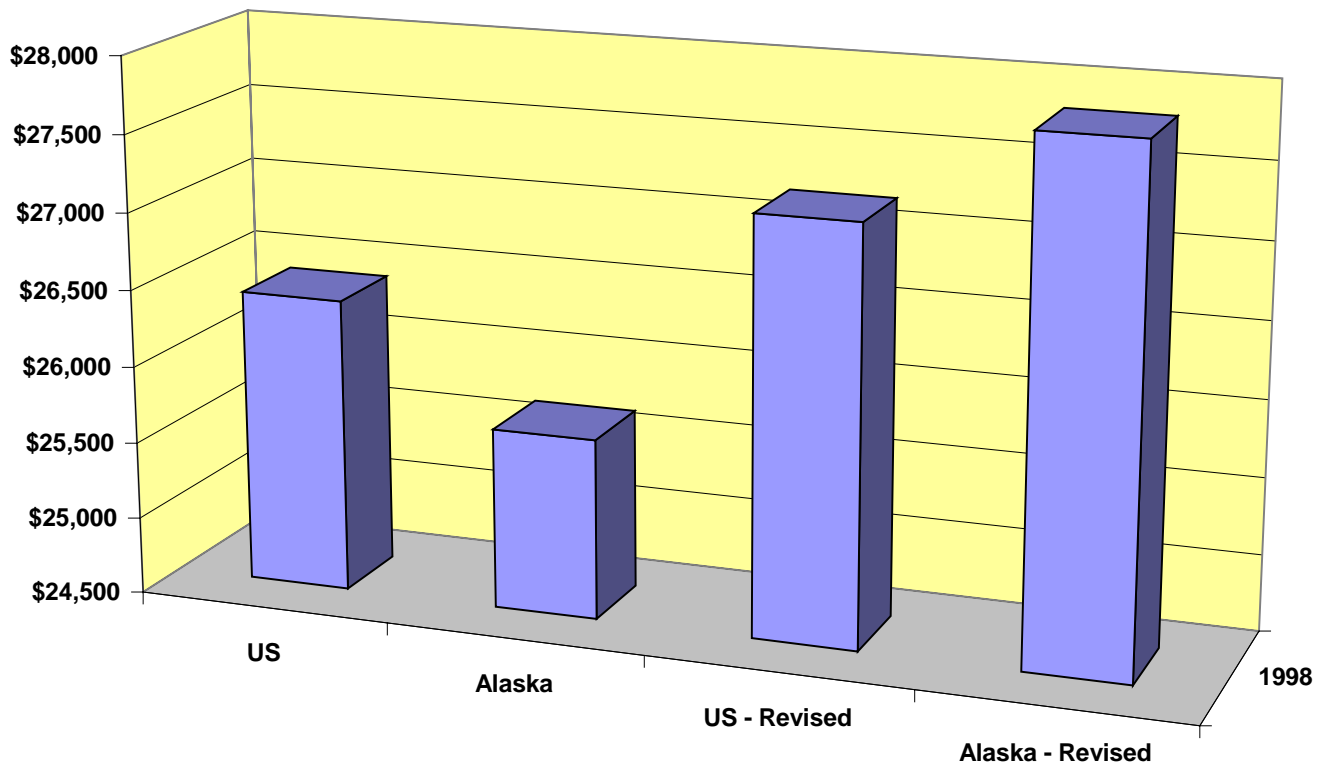
Note 2: The budget figures reflect only the expenditures that are matched with the FMAP. Excluded are the expenditures for family planning, Title XXI and Indian Health Services.

Changes in State's FMAPs FY97 - 02



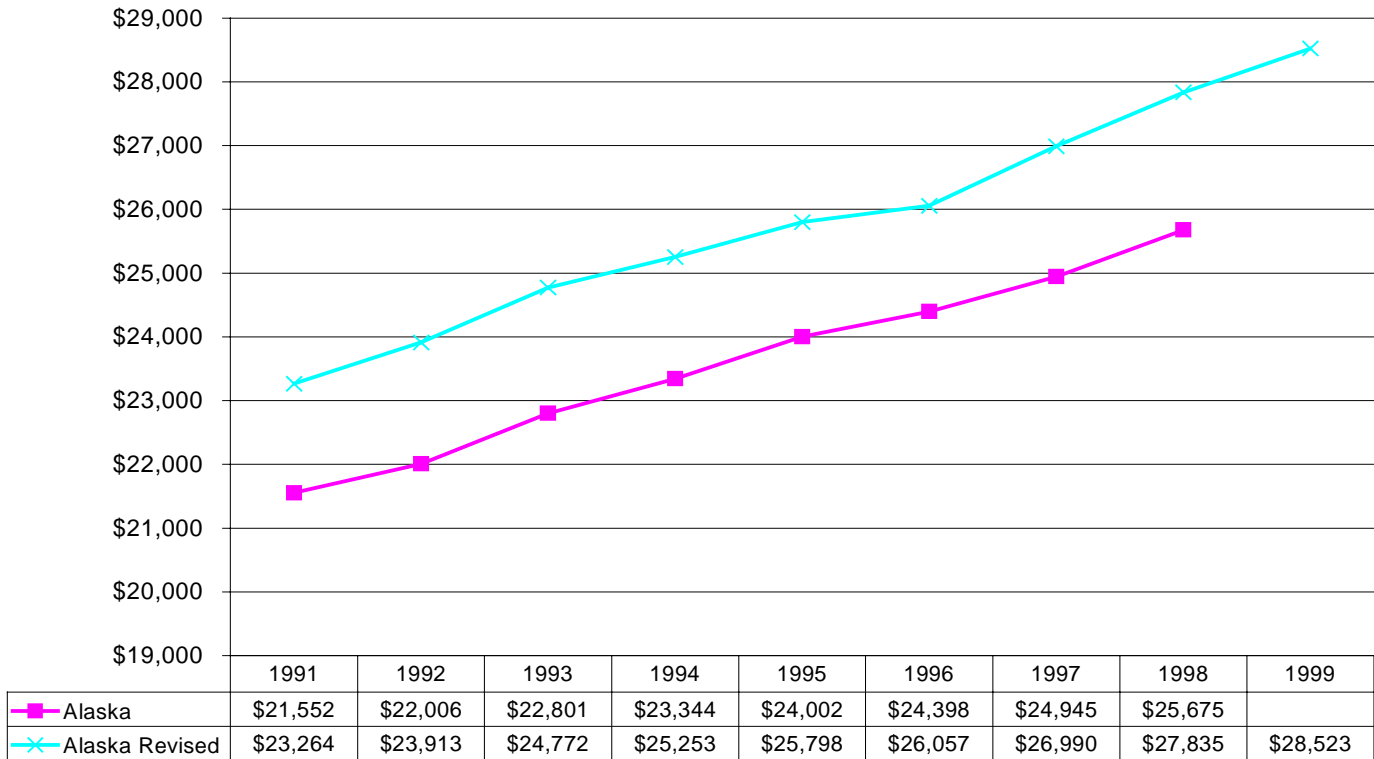
- The above chart shows all the FMAP changes for all states FY95-02
- Over the period, most FMAP changes are less than 1 percent either positive or negative
- Alaska's 2.75% decrease was the largest in the past 5 years.
- In FY02, only eight states, Alaska, Wyoming, South Dakota, Utah, Rhode Island, Minnesota, South Carolina and North Carolina, had decreases that exceeded 1 percent.

Per Capita Income Pre and Post BEA Revision



- Prior to the BEA revision Alaska's per capita income was lower than the per capita income of the nation.
- After the revision, Alaska's per capita income was higher than the nations per capita income.
- Alaska's per capita income increased by 8 percent in 1997 and 8.2 percent in 1998 compared to the United State's increase of 2.5 and 2.7 percent.
- The FMAP is based on a state's per capita income compared to the per capita income of the other states. The higher the per capita income of a state in relation to the other states the lower the FMAP.
- The increase to Alaska's per capita income relative to the per capita income of the United States resulted in Alaska's FMAP decrease.

Statistical Impact on Alaska's Income Resulting from BEA Change



- **Alaska's Per Capita Income before and after the revisions by the Bureau of Economic Analysis (BEA).**
- **BEA revised Alaska's 1991 Per Capita Income upward \$1,712. The revisions increase steadily each year to an increase of \$2,160 for 1998.**
- **Nothing has changed in Alaska's economy. The purchasing power in Alaska did not change because of the changed methodology.**

National and Alaska Per Capita Income

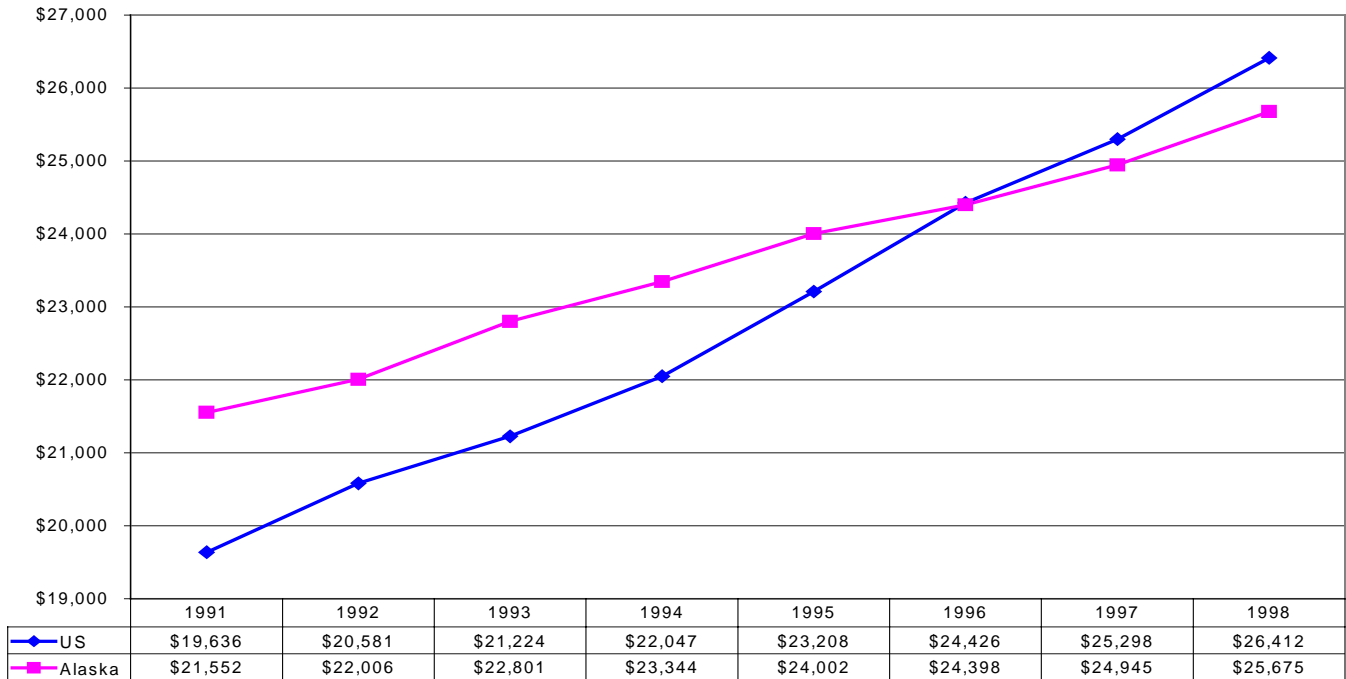
Two Views

- **Alaska's Pre BEA per capita income had dropped below the national per capita income in 1996 resulting in a higher FMAP.**
- **The US per capita income continued to grow at a faster rate than Alaska's in 1997 and 1998 which resulted in a higher FMAP.**
- **Post BEA change shows Alaska's per capita income increasing in relation to the US income, but Alaska's citizens saw no increase in their real incomes.**
- **And Alaska citizens will see a decreased federal participation in its Medicaid program.**

National and Alaska Per Capita Income

Two Views

Pre BEA Change



Post BEA Change

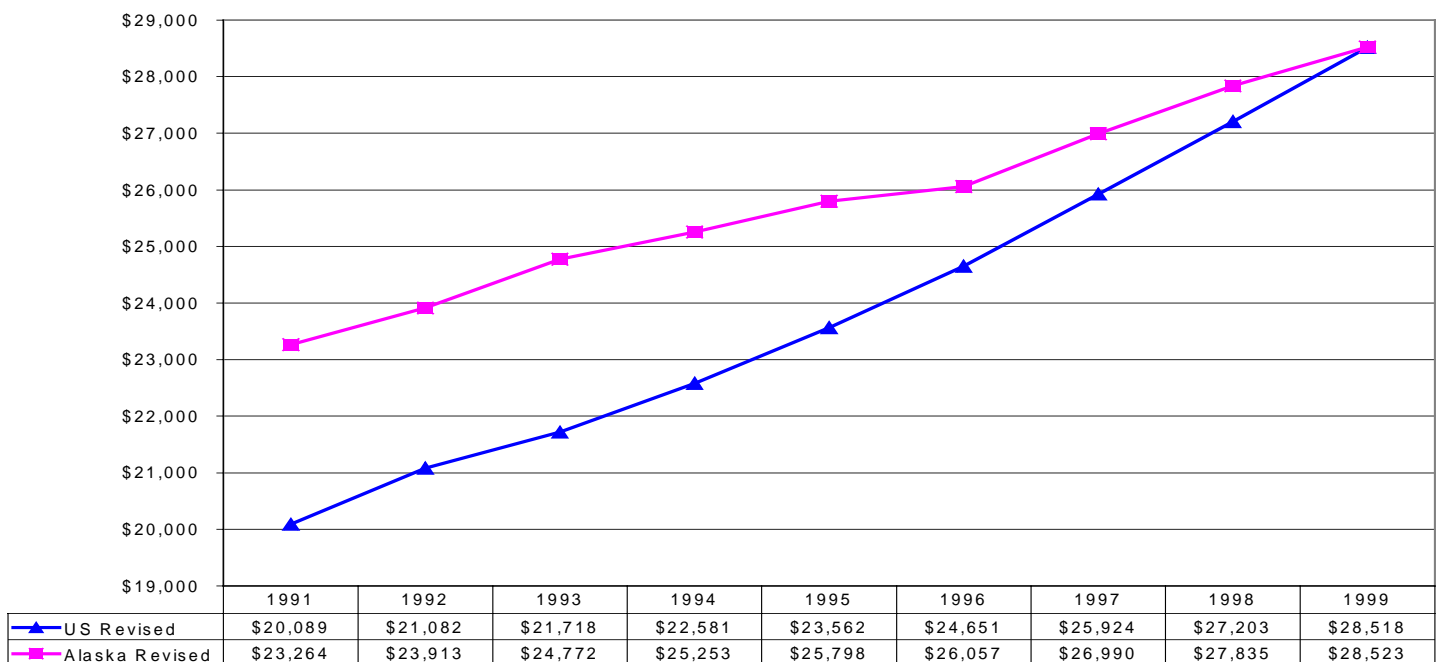


Table - Percent Government of Personal Income

This table lists the total personal income for each state for 1997-99, the amount of personal income derived from government activities including the pension reclassification, the calculated percent the government activities represent of the total personal income and the percent revision to each states personal income due to the 1999 reclassification.

This table is sorted on the 1998 Percent Revision column descending from the State of Alaska with the largest revision through those states with negative revisions to their personal incomes.

Alaska has the greatest percent of personal income derived from government activity and suffered the greatest revision to its personal income of all of the states.

Percent Government of Personal Income

State	Total Personal Income			Total Government Enterprise			Percent Government			Revision to Personal Income	
	1997	1998	1999	1997	1998	1999	1997	1998	1999	1997	1998
National	6,942,114	7,351,547	7,776,493	820,425	850,789	887,444	11.8%	11.6%	11.4%	2.5%	2.7%
Alaska	16,433	17,124	17,670	4,322	4,343	4,381	26.3%	25.4%	24.8%	8.0%	8.2%
Nevada	47,278	50,919	54,913	5,034	5,447	5,762	10.6%	10.7%	10.5%	6.2%	6.5%
Minnesota	129,080	138,307	146,236	12,968	13,518	13,888	10.0%	9.8%	9.5%	4.9%	5.8%
South Dakota	16,379	17,331	18,406	1,952	2,023	2,096	11.9%	11.7%	11.4%	5.3%	5.8%
New Mexico	34,955	36,688	38,386	6,651	6,895	7,004	19.0%	18.8%	18.2%	5.1%	5.6%
Utah	43,770	46,717	49,745	6,179	6,476	6,784	14.1%	13.9%	13.6%	5.0%	5.5%
North Dakota	13,380	14,600	14,903	2,091	2,122	2,196	15.6%	14.5%	14.7%	3.8%	5.4%
Idaho	25,440	27,177	29,346	3,280	3,448	3,666	12.9%	12.7%	12.5%	3.2%	4.9%
Rhode Island	26,505	27,914	29,447	3,122	3,208	3,398	11.8%	11.5%	11.5%	4.6%	4.9%
Montana	17,688	18,671	19,699	2,533	2,620	2,711	14.3%	14.0%	13.8%	2.4%	4.7%
South Carolina	81,169	85,898	91,300	11,158	11,794	12,708	13.7%	13.7%	13.9%	4.5%	4.7%
Oregon	81,040	85,043	89,983	9,021	9,455	9,972	11.1%	11.1%	11.1%	4.5%	4.6%
Arizona	103,968	112,974	120,923	11,925	12,585	13,143	11.5%	11.1%	10.9%	3.8%	4.5%
Nebraska	41,019	43,053	45,710	5,164	5,299	5,420	12.6%	12.3%	11.9%	4.8%	4.5%
Wyoming	11,329	11,671	12,471	1,833	1,898	1,993	16.2%	16.3%	16.0%	4.4%	4.5%
North Carolina	179,845	190,009	200,601	23,200	24,563	25,957	12.9%	12.9%	12.9%	4.5%	4.4%
Wisconsin	129,697	137,256	143,927	13,213	13,785	14,364	10.2%	10.0%	10.0%	3.7%	4.3%
West Virginia	35,233	36,569	37,744	4,692	4,842	5,002	13.3%	13.2%	13.3%	3.7%	4.2%
Mississippi	51,557	54,410	56,773	7,350	7,750	8,171	14.3%	14.2%	14.4%	4.3%	4.1%
Oklahoma	69,865	73,350	76,566	10,139	10,454	10,950	14.5%	14.3%	14.3%	3.6%	4.1%
Colorado	109,228	119,044	128,489	13,925	14,479	15,071	12.7%	12.2%	11.7%	3.9%	4.0%
Arkansas	51,344	53,725	56,421	5,885	6,123	6,358	11.5%	11.4%	11.3%	3.8%	3.8%
Indiana	140,405	148,651	155,061	13,262	13,845	14,261	9.4%	9.3%	9.2%	3.2%	3.7%
Louisiana	92,486	96,878	99,646	12,103	12,679	12,826	13.1%	13.1%	12.9%	3.8%	3.7%
Ohio	280,289	292,999	304,847	29,325	30,375	31,330	10.5%	10.4%	10.3%	3.6%	3.6%
Florida	376,559	400,209	423,460	40,296	42,135	43,246	10.7%	10.5%	10.2%	3.5%	3.5%
Michigan	252,266	264,016	274,643	25,251	25,359	35,951	10.0%	9.6%	13.1%	3.4%	3.5%
Tennessee	126,096	132,756	140,275	12,926	13,361	13,999	10.3%	10.1%	10.0%	3.4%	3.5%
Illinois	341,938	360,317	379,351	33,341	34,687	36,423	9.8%	9.6%	9.6%	3.0%	3.2%
Iowa	68,170	70,797	73,821	7,397	7,773	8,092	10.9%	11.0%	11.0%	3.3%	3.0%
Kentucky	83,181	87,274	91,735	10,759	11,052	11,890	12.9%	12.7%	13.0%	3.4%	2.9%
Missouri	131,762	136,754	143,199	14,439	14,853	15,749	11.0%	10.9%	11.0%	3.1%	2.9%
Georgia	184,113	197,319	211,823	23,358	24,579	25,520	12.7%	12.5%	12.0%	2.9%	2.8%
Alabama	91,848	95,956	100,269	12,876	13,408	13,906	14.0%	14.0%	13.9%	2.8%	2.6%
Maine	27,886	29,316	31,276	3,466	3,590	3,764	12.4%	12.2%	12.0%	2.4%	2.4%
Kansas	63,855	67,383	70,686	7,847	8,151	8,502	12.3%	12.1%	12.0%	2.4%	2.3%
Washington	151,413	163,348	174,389	20,346	21,050	21,974	13.4%	12.9%	12.6%	2.0%	2.3%
California	862,756	920,452	988,339	100,597	105,436	110,880	11.7%	11.5%	11.2%	1.9%	2.2%
Hawaii	31,278	31,856	33,006	6,972	7,110	7,532	22.3%	22.3%	22.8%	1.9%	2.2%
Pennsylvania	314,944	329,687	343,946	29,287	30,082	30,703	9.3%	9.1%	8.9%	2.1%	2.2%
Virginia	180,510	190,528	202,642	32,780	33,614	35,101	18.2%	17.6%	17.3%	2.6%	2.1%
Massachusetts	193,199	205,814	220,658	18,298	19,018	20,205	9.5%	9.2%	9.2%	1.1%	1.8%
Maryland	148,264	156,759	166,350	22,899	24,056	25,601	15.4%	15.3%	15.4%	1.5%	1.7%
Vermont	13,764	14,529	15,373	1,544	1,603	1,672	11.2%	11.0%	10.9%	1.6%	1.5%
New York	554,061	583,061	617,709	61,017	62,698	65,825	11.0%	10.8%	10.7%	0.9%	1.3%
Texas	464,500	500,087	531,675	54,693	57,401	60,243	11.8%	11.5%	11.3%	1.1%	1.1%
New Hampshire	32,553	34,958	37,121	2,591	2,672	2,779	8.0%	7.6%	7.5%	0.0%	1.0%
New Jersey	262,423	278,349	294,024	27,176	26,778	27,645	10.4%	9.6%	9.4%	0.6%	1.0%
Connecticut	116,477	122,191	128,548	9,925	10,223	10,252	8.5%	8.4%	8.0%	-0.6%	-1.0%
Delaware	20,291	21,863	23,122	2,236	2,364	2,460	11.0%	10.8%	10.6%	-3.1%	-1.8%
District of Columbia	18,628	18,988	19,840	17,790	17,714	18,122	95.5%	93.3%	91.3%	-1.5%	-2.8%

State FMAPs Compared FFY95-2002

Year	1995	1996	Yearly	1997	Yearly	1998	Yearly	1999	Yearly	2000	Yearly	2001	Yearly
State			Comparison	FMAP	Comparison	FMAP	Comparison	FMAP	Comparison	FMAP	Comparison	FMAP	Comparison
Alaska	50.00	50.00	0.00	50.00	0.00	59.80	9.80	59.80	0.00	59.80	0.00	60.13	0.33
Wyoming	62.87	59.69	(3.18)	59.88	0.19	63.02	3.14	64.08	1.06	64.04	(0.04)	64.60	0.56
South Dakota	68.06	66.66	(1.40)	64.89	(1.77)	67.75	2.86	68.16	0.41	68.72	0.56	68.31	(0.41)
Utah	73.48	73.21	(0.27)	72.33	(0.88)	72.58	0.25	71.78	(0.80)	71.55	(0.23)	71.44	(0.11)
Rhode Island	55.49	53.84	(1.65)	53.90	0.06	53.17	(0.73)	54.05	0.88	53.77	(0.28)	53.79	0.02
Minnesota	54.27	53.93	(0.34)	53.60	(0.33)	52.14	(1.46)	51.50	(0.64)	51.48	(0.02)	51.11	(0.37)
South Carolina	70.71	70.77	0.06	70.43	(0.34)	70.23	(0.20)	69.85	(0.38)	69.95	0.10	70.44	0.49
North Carolina	64.71	64.59	(0.12)	63.89	(0.70)	63.09	(0.80)	63.07	(0.02)	62.49	(0.58)	62.47	(0.02)
Nebraska	60.40	59.49	(0.91)	59.13	(0.36)	61.17	2.04	61.46	0.29	60.88	(0.58)	60.38	(0.50)
Oklahoma	70.05	69.89	(0.16)	70.01	0.12	70.51	0.50	70.84	0.33	71.09	0.25	71.24	0.15
Oregon	62.36	61.01	(1.35)	60.52	(0.49)	61.46	0.94	60.55	(0.91)	59.96	(0.59)	60.00	0.04
Arizona	66.40	65.85	(0.55)	65.53	(0.32)	65.33	(0.20)	65.50	0.17	65.92	0.42	65.77	(0.15)
New Mexico	73.31	72.87	(0.44)	72.66	(0.21)	72.61	(0.05)	72.98	0.37	73.32	0.34	73.80	0.48
Mississippi	78.58	78.07	(0.51)	78.22	0.15	77.09	(1.13)	76.78	(0.31)	76.80	0.02	76.82	0.02
Wisconsin	59.81	59.67	(0.14)	59.00	(0.67)	58.84	(0.16)	58.85	0.01	58.78	(0.07)	59.29	0.51
Georgia	62.23	61.90	(0.33)	61.52	(0.38)	60.84	(0.68)	60.47	(0.37)	59.88	(0.59)	59.67	(0.21)
Kentucky	69.58	70.30	0.72	70.09	(0.21)	70.37	0.28	70.53	0.16	70.55	0.02	70.39	(0.16)
Texas	63.31	62.30	(1.01)	62.56	0.26	62.28	(0.28)	62.45	0.17	61.36	(1.09)	60.57	(0.79)
Virginia	50.00	51.37	1.37	51.45	0.08	51.49	0.04	51.60	0.11	51.67	0.07	51.85	0.18
Arkansas	73.75	73.61	(0.14)	73.29	(0.32)	72.84	(0.45)	72.96	0.12	72.85	(0.11)	73.02	0.17
Nevada	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.36	0.36
Washington	51.97	50.19	(1.78)	50.42	0.23	52.15	1.73	52.50	0.35	51.83	(0.67)	50.70	(1.13)
Ohio	60.69	60.17	(0.52)	59.28	(0.89)	58.14	(1.14)	58.26	0.12	58.67	0.41	59.03	0.36
Louisiana	72.65	71.89	(0.76)	71.36	(0.53)	70.03	(1.33)	70.37	0.34	70.32	(0.05)	70.53	0.21
Montana	70.81	69.38	(1.43)	69.01	(0.37)	70.56	1.55	71.73	1.17	72.30	0.57	73.04	0.74
Florida	56.28	55.76	(0.52)	55.79	0.03	55.65	(0.14)	55.82	0.17	56.52	0.70	56.62	0.10
Tennessee	66.52	65.64	(0.88)	64.85	(0.79)	63.36	(1.49)	63.09	(0.27)	63.10	0.01	63.79	0.69
North Dakota	68.73	69.06	0.33	67.73	(1.33)	70.43	2.70	69.94	(0.49)	70.42	0.48	69.99	(0.43)
West Virginia	74.60	73.26	(1.34)	72.60	(0.66)	73.67	1.07	74.47	0.80	74.78	0.31	75.34	0.56
Colorado	53.10	52.44	(0.66)	52.32	(0.12)	51.97	(0.35)	50.59	(1.38)	50.00	(0.59)	50.00	0.00
Connecticut	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00
Delaware	50.00	50.33	0.33	50.00	(0.33)	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00
District of Columbia	50.00	50.00	0.00	50.00	0.00	70.00	20.00	70.00	0.00	70.00	0.00	70.00	0.00
Illinois	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00
Indiana	63.03	62.57	(0.46)	61.58	(0.99)	61.41	(0.17)	61.01	(0.40)	61.74	0.73	62.04	0.30
Maryland	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00
Massachusetts	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00
New Hampshire	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00
New Jersey	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00
New York	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00
Missouri	59.85	60.06	0.21	60.04	(0.02)	60.68	0.64	60.24	(0.44)	60.51	0.27	61.03	0.52
California	50.00	50.00	0.00	50.23	0.23	51.23	1.00	51.55	0.32	51.67	0.12	51.25	(0.42)
Michigan	56.84	56.77	(0.07)	55.20	(1.57)	53.58	(1.62)	52.72	(0.86)	55.11	2.39	56.18	1.07
Iowa	62.62	64.22	1.60	62.94	(1.28)	63.75	0.81	63.32	(0.43)	63.06	(0.26)	62.67	(0.39)
Idaho	70.14	68.78	(1.36)	67.97	(0.81)	69.59	1.62	69.85	0.26	70.15	0.30	70.76	0.61
Kansas	58.90	59.04	0.14	58.87	(0.17)	59.71	0.84	60.05	0.34	60.03	(0.02)	59.85	(0.18)
Alabama	70.45	69.85	(0.60)	69.54	(0.31)	69.32	(0.22)	69.27	(0.05)	69.57	0.30	69.99	0.42
Maine	63.30	63.32	0.02	63.72	0.40	66.04	2.32	66.40	0.36	66.22	(0.18)	66.12	(0.10)
Vermont	60.82	60.87	0.05	61.05	0.18	62.18	1.13	61.97	(0.21)	62.24	0.27	62.40	0.16
Pennsylvania	54.27	52.93	(1.34)	52.85	(0.08)	53.39	0.54	53.77	0.38	53.82	0.05	53.62	(0.20)
Hawaii	50.00	50.00	0.00	50.00	0.00	50.00	0.00	50.00	0.00	51.01	1.01	53.85	2.84
Average FMAP	60.49	60.11		59.81		60.66		60.67		60.74		60.87	

The BEA's comprehensive revision of State estimates of personal income and how they adversely effect Alaska's FMAP

What is the role of the BEA?

The Bureau of Economic Analysis (BEA) is an agency of the U. S. Department of Commerce whose role it is to produce and disseminate economic accounts statistics of economic activity. The BEA's economic accounts present basic information on such key issues as U.S. economic growth, regional economic development, and the Nation's position in the world economy.

The national economic accounts provide a quantitative view of the production, distribution, and use of the Nation's output; one of the most widely known measures is gross domestic product (GDP).

The regional economic accounts provide estimates of personal income, population, and employment for regions, States, metropolitan areas, and counties.

Why did the BEA revise their estimates and what did they change?

The BEA's economic accounts are used by many sources and for many purposes. One component of the State estimates of personal income.

In October 1999, the BEA released revised State estimates of personal income for the years 1969 – 1998 reflecting the incorporation of several major definitional and statistical improvements that were previously introduced by the BEA in the comprehensive revision of national income and product accounts (NIPA). This revision was the 11th comprehensive revision of the accounts done by the BEA. According to the BEA, comprehensive revisions are made every 4 to 5 years in order to incorporate a number of major definitional and statistical improvements designed to better measure the evolving U.S. economy. Comprehensive revisions of State estimates of personal income incorporate newly available benchmark source data, improved methods for preparing state estimates, and newly available State data from regular sources. Future estimates of personal incomes are based on these new definitional and statistical improvements used to produce the revised estimates.

The comprehensive revision of the State estimates released in October 1999 included the following definitional changes: recognition of business and government expenditures for software, including own-account production of software, as investment; **reclassification of government employee retirement plans**; modified treatment of private noninsured

pension plans; reclassification of certain transactions as capital transfers; and redefinition of the value of imputed services of regulated investment companies.

The 1999 comprehensive revision of the State estimates also included the following statistical changes: incorporation of the 1992 benchmark input-output accounts and the preliminary results of the 1996 annual update of those accounts; improved estimates of the real value of unpriced banking services; and incorporation of geometric-mean-type consumer price indexes.

What were the specific changes in the sources and methods used to prepare the State estimates of personal income?

The most important differences between the revised and the previously published State estimates of personal income for 1969 – 1998 are attributable to the reclassification of **government employee retirement plans** for Federal civilian, military, and State and local government employees. **This change raised personal income by (1) the amount of employer contributions to these plans**, which are added to other labor income, **(2) dividends and interest received by these plans**, which are added to personal dividend income and personal interest income, **and reduced personal income by (3) the personal contributions to these plans**. Further, **the revision reduced personal income by the amount of benefits paid by these government employee retirement plans** because the benefits are no longer treated as government transfer payments to persons. The BEA points out that although this change raises personal income, it does not affect the national estimates of gross domestic product, gross domestic income, or national income.

In developing the State estimates, the national totals of the employer contributions for Federal civilian employees and for military personnel are allocated to States in proportion to the corresponding estimates of wage and salary disbursements. The State estimates of the contributions for State and local government employees, like the national estimates, are based on data from the Census Bureau's annual *Finances of Employee-Retirement Systems of State and Local Governments*.

For the preparation of the State estimates of dividends and interest received by government employee retirement plans, the national totals are divided into the portion that is received on behalf of current employees and the portion that is received on behalf of retirees. The current-employee portion is assumed to be 60 percent of the total for the civilian plans and 40 percent for the military plan.

For the Federal civilian plans, the national totals of the current-employee portions of dividends and interest are allocated to States in proportion to place-of-residence estimates of Federal civilian wages and salaries. The national totals of the retiree portions are allocated in proportion to the estimates of retirement benefits received by individuals

from the plans; these estimates are based on data provided by the Office of Personnel Management.

For the military plan, the national total of the current-employee portion of the interest is allocated to States in proportion to the estimates of military wages and salaries adjusted to a place-of-residence basis. The national total of the retiree portion is allocated in proportion to the estimates of retirement benefits from the plan; these estimates are based on data from the Department of Defense.

For the State and local government plans, the estimates are based mainly on data on the dividends and the interest received by the plans operated by the State and local governments of each State from the Census Bureau's annual Finances of Employee-Retirement Systems of State and Local Governments. These data are adjusted to a place-of-residence basis using the journey-to-work data for current employees, and then they are used to prepare the estimates of both the current-employee portion and the retiree portion of the corresponding type of income.

What were (some of) the results of the comprehensive revision?

As a result of the comprehensive revision, personal income for the Nation was revised up for all years. For 1998, it was revised up 2.7 percent. The BEA attributes most of the change to the incorporation of the definitional change that treat government employee retirement plans symmetrically with private pension plans. The BEA points out that the comprehensive revision had little effect on the growth rates of State personal income. They acknowledge that the comprehensive revision of State personal income caused large revisions in a few states. However, they justify the results noting that long-term “growth rates” in State personal income and the “rankings” of State per capita personal income were changed little over the revision period, 1969 – 1998. Their conclusion may be hard for Alaskans to accept knowing that the State’s economy has experienced very slow growth (as measured by personal income) relative to the U.S. economy in recent years.

The BEA presents the revisions to personal income for 6 states and for the District of Columbia, all of which differed by more than 3.0 percentage points in 1998. Four states including Alaska (8.2 percent), Nevada (6.5 percent), Minnesota (5.8 percent), and South Dakota (5.8 percent) experienced a significant increase in personal income as a result of the revision. Personal income for two states, Connecticut and Delaware, and the District of Columbia were all revised downward.

Alaska had the largest revision in personal income, up 8.2 percent in 1998 or \$1.3 billion. The BEA presents the revisions by component of personal income for selected states whose personal income changed by more than 3.0 percent for 1998. For Alaska, the components with the largest upward revision in personal income were “other labor

income” with a 4.3 percent revision (employer contributions to government employee retirement plans), and “dividends, interest, and rent” with a 6.9 percent revision (dividends and interest received by the government employee retirement plans). These upward revisions were partially offset by a 4.1 percent downward revision to personal income by transfer payments (because the benefits paid by these plans are no longer counted as government transfer payments).

It is interesting to note that the comprehensive revision resulted in a 2.3 percent upward revision to personal income for Alaska in 1969, 8.4 percent up in 1992, 7.1 percent up in 1996, and 8.0 percent up in 1997. These upward revisions in personal income seem contrary to Alaskans given the subdued rates of economic growth in the state in recent years. Instead, the BEA makes the long-term observation that Alaska ranked in the top 10 states in per capita income during much of the comprehensive revision period (1969-1998), but has steadily dropped in recent years to 16th (in 1998).

The BEA acknowledges that the application of the comprehensive revision in a single year, 1998, did result in large shifts in the ranking of per capita income in two states, Alabama and Alaska. Alabama moved from 40th to 44th and Alaska shifted from 20th to 16th. They also note that nine other states had shifts of 3 points in the ranking.

What is the relationship between the BEA’s estimates of personal income and the FMAP?

The Health Care Financing Administration uses the BEA’s estimates of personal income (for each state) to calculate the Federal Medical Assistance Program (FMAP) matching rate, that is, the federal governments partial funding to states for their Medicaid programs.

Medicaid expenditures for services are paid from state funds (referred to as the “state share”) and from federal matching dollars. The federal matching rate varies from state to state, but is never less than 50 percent nor more than 83 percent. The formula used to determine the federal matching rate for any given state is based on a comparison of a state’s three-year average per capita income with the national average. Theoretically, states with a larger proportion of their population at low income levels will get a higher federal match than states with a smaller proportion of low income individuals.

The FMAPs for all states for 2002 varies from the minimum federal floor of 50 percent to a high of 76.09 percent, with an average of 60.53 percent.

For the selected states whose BEA's estimates of personal income changed by more than 3.0 percent for 1998, how did their FMAP change?

Of the four states that experienced a significant increase in personal income as a result of the revision--Alaska, Nevada, Minnesota, and South Dakota, it appears that Nevada and Minnesota each reached the minimum 50 percent FMAP so the full impact of the BEA personal income revisions did not affect their FMAPs in 2002. Nevada's FMAP dropped to 50 percent from 50.36 percent (2001) and Minnesota dropped to 50 percent from 51.11 percent (2001). South Dakota's FMAP declined from 68.31 percent (2001) to 65.93 percent, a drop of 2.38 percent. Alaska's FMAP sustains the largest decline of any state, from 60.13 percent (2001) to 57.38 (2002), a 2.75 percent decline.

The only other state to experience a FMAP decline of more than 2 percent was Wyoming. Their FMAP dropped from 64.6 percent (2001) to 61.97 (2002), or 2.63 percent. For comparison, Wyoming's estimate of personal income for 1998 was revised 4.5 upward as a result of the BEA's comprehensive revision.

Alaska's sudden increase in State personal income in 1998 due to the large proportion of personal income from governments

An analysis of personal income and the percent of personal income derived from government for all states demonstrates the disproportionate size of government enterprise in Alaska as compared to all other states. In 1998, 25.4 percent of all personal income for Alaskans was derived from governments, as compared to the national average of 11.6 percent.

As stated earlier, as a result of the BEA's comprehensive revision of personal income, Alaska experienced the largest increase in personal income (up 8.2 percent in 1998) as compared to all other states. The magnitude of the BEA's revision of State personal income is larger for Alaska than any other state because governments produce one-quarter of all the personal income of Alaskans.

Reference

For a detailed description of the comprehensive revisions see U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Comprehensive Revision of State Personal Income Revised Estimates for 1969-98, Preliminary Estimates for 1999. Or, go to BEA's Web site at www.bea.doc.gov, select Articles under Regional programs, and then select Comprehensive Revision of State Personal Income - June 2000 which is available in either HTML or PDF.

*This document was produced by the Division of Medical Assistance.
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